

MANAGING FOR DEVELOPMENT RESULTS **AND AID EFFECTIVENESS**

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Session 1: Strategic Context – The Role of Results Management in the Public Sector

1. Introduction

Improving aid effectiveness cannot be divorced from improving the effectiveness of budget management and public sector management in general, because most aid finances public expenditure. Public sector reform is therefore an important component of Uganda's economic reform programme and is also the focus of the Poverty Reduction and Strategy Credit (PRSC) which Uganda has negotiated with the World Bank. The objective of public sector reform is to orientate the allocation of resources within the budget towards reducing poverty and to improve the efficiency and effectiveness with which Government provides essential goods and services. The reforms also aim to enhance transparency for, and accountability of, public spending to the citizens of Uganda, to Parliament and to the donors.

The yardstick against which we measure budget performance in Uganda is poverty eradication. Our policy objectives are set out in the Poverty Eradication Action Plan, which was first published in 1997 after a two year period of preparation involving a wide range of stakeholders right from zero draft. It is noteworthy that this widespread consultation exercise was undertaken long before the Poverty Reduction Strategy Papers (PRSPs) were born. For Uganda the PEAP is both the PRSP and the Comprehensive Development Framework. The main objective of the PEAP is to reduce the incidence of poverty to less than 10% by 2017. I can report that poverty incidence has been reduced from 56% in 1992 to 35% in 2000. Improving the management of the budget to ensure that public expenditure delivers the policy objectives identified in the PEAP requires reforms at three different institutional levels: the highest level is that of the overall budget; the intermediate level is that of the sectors, while the lowest institutional level is that of individual institutions – ministries, departments or agencies. I will briefly outline the objectives and progress of reforms in Uganda at each of these institutional levels.

2. Reforms to Management of the Overall Budget

It is at the highest institutional level of budget management that we have made most progress in implementing reforms to date, largely because these reforms are driven and implemented by a single centralised agency - the Ministry of Finance, Planning and Economic Development (MFPED) – whose senior officials both fully understand and are committed to the reforms. Budget management reforms have centred around the introduction of the Medium Term Expenditure Framework (MTEF), in which budgets are planned on a rolling three year basis and are consistent with a medium term macroeconomic framework designed

to deliver macroeconomic stability, economic growth and poverty reduction. The budget is divided into different sectors – health, infrastructure, transport and communications, education, public administration, security, etc and a key feature of the MTEF is that three year sector expenditure ceilings are provided by the Ministry of Finance, Planning and Economic Development to each of these different sectors. The sector ceilings should reflect the strategic spending priorities of Government, as identified in the PEAP and ultimately determined by Cabinet. Sector Working Groups (SWAGs) have been formed for each sector and these SWAGs are required each year to formulate rolling medium term spending plans, which are consistent with their sectors spending ceilings and reform programmes.

At this level, budget reform has been a success, in that budget management has been supportive of macroeconomic management, enabling macroeconomic stability to be maintained and high quality pro-poor GDP growth to be sustained. Macroeconomic stability has been maintained with inflation averaging less than 5% since 1992 and real GDP growth has been about 6% over the period. The reforms have also enabled the Government to shift the allocation of resources within the budget towards the sectors which make the strongest contributions to poverty eradication, such as primary health care, primary education and water and sanitation. Hence the allocation of resources in the budget now better reflects the policy objectives of Government.

I would like to highlight the importance of ensuring that the availability of funds, such as the Global Fund for Health, does not interfere with the Government's strategic sectoral priorities and the macroeconomic

framework as well as the external competitiveness of the recipient countries exports.

Budgeting is an intensely political process, not purely a technocratic issue. It involves choices and ultimately it is a political zero sum game, favouring some sectors over others. The prioritisation of public expenditures within a hard budget constraint involves choices which must be made by the Cabinet and Parliament. Partnership means that donor partners and other domestic stakeholders must participate in this process, but donors should not unduly influence the choices which must be made by the only partner who is politically answerable to the recipient country constituency.

It is a fact of life that external aid can not create non-tradeable goods, at least not in the short run. I thank my colleague from Senegal for giving some examples of these non-tradeables. Absorbing donor funds changes the ratio between tradeable goods and non-tradeable goods which is the real exchange rate, which affects the competitiveness of the exports of the recipient country. Also the absorptive capacity of the economy cannot be increased instantaneously.

The absorption of donor funds has an impact which only the recipient country authorities can manage if macroeconomic imbalances are to be avoided and the external competitiveness of the recipient country exports maintained.

3. Reforms at the Sectoral Level – Output Oriented Budgeting

The role of the sectors in budget management includes drawing up medium term budget plans, which can most efficiently deliver the sector's policy objectives within the hard budget constraint imposed by the sector spending ceiling in the MTEF. Within each sector, Sector Working groups (SWAGs) have been set up comprising the relevant stakeholders in the sector, including the donors and civil society.

A prerequisite for effective budget management at the sectoral level is for the SWAGs to prioritise their spending requirements in accordance with policy objectives by drawing up medium term sector investment plans or SWAPs. The education SWAP, for example, aims at Universal Primary Education and with a threefold increase in enrolments since the introduction of the programme in 1997, Uganda will achieve universal education well within the target date for this Millennium Development Goal. Prioritisation of expenditures is essential to avoid spreading scarce resources too thinly and to ensure that scarce budgetary resources within each sector are used most effectively.

Making budget management more effective requires a change in attitude towards budget management, from the traditional focus of the public service which is primarily on the management of inputs, towards one which is focussed on achieving clearly defined output targets. Output Oriented Budgeting, which is spearheaded by the MFPED, is the means to bring about this shift in budget management.

The main achievement of Output Oriented Budgeting to date has been at the sectoral level where performance indicators have been developed and

quantified to measure the attainment of policy objectives. These indicators include quantifiable targets – for example in the Education sector they include the number of classrooms constructed, the pupil teacher ratio and the ratio of pupils to school text books. The performance indicators are discussed in the SWAGs and set out in the sector investment plans and sector budget framework papers. Many of the performance indicators from the sectors have been incorporated into the Policy Matrix of the Poverty Reduction Support Credit.

The progress of reforms to strengthen budget management at the sectoral level has been mixed: some sectors have made substantial progress – notably education and health which have benefited from technical assistance provided by donors – while other sectors are much less advanced, mainly because of a lack of technical capacities.

4. Results Oriented Management

The implementation of Results Oriented Management (ROM) in the public service has been a policy objective of Government for several years. ROM is closely linked to OOB and has similar aims, but ROM operates at a lower institutional level than OOB. Results Oriented Management aims to measure achievement at the institutional, departmental and individual level

Results Oriented Management essentially involves ensuring that the budget is implemented according to plan. ROM is spearheaded by the Ministry of Public Service (MPS), and aims to identify a reasonable level of output for a department, section or individual within the public service. ROM establishes outputs as a link between inputs and outcomes, and

builds performance indicators around the outputs. Although ROM is currently being rolled out across central and local government agencies, it is the case that far less progress has been made to date with reforms at this level than with the reforms at the higher institutional levels. It is worth considering why this is the case.

The main constraints to implementing ROM are twofold. First, human capacities within the civil service are very weak, partly as a result of uncompetitive salary levels which make it virtually impossible for the civil service to retain high calibre staff. This problem is being tackled through a pay reform component of the PRSC, but realistically it will take many years before the civil service can offer competitive salaries, given the budgetary resource constraints which the Government faces.

Secondly, senior managers in the civil service do yet not have the power to hire and fire staff. Hiring and firing of civil servants is a bureaucratic process centralised in the Ministry of Public Service, as a result of which the link between performance on the job and reward or penalties, in terms of promotion or dismissal, is at best tenuous. It is almost unheard of for the Ministry of Public Service to dismiss any public servant for poor performance. This, of course, erodes the incentives facing civil servants to perform their duties diligently and honestly. Effective public sector management will not be possible until senior managers in each ministry or agency are given the authority to actually manage their staff in the same way as they manage other resources, which means that Senior Managers must have the power to hire and fire staff.

5. Conclusion

The need to improve public sector management, and to focus it on achieving clearly defined objectives, is not in doubt. This requires many different but interlocking reforms. Uganda has made important progress with some of these reforms, especially those which can be implemented centrally, such as planning the budget in a manner which is consistent with macroeconomic objectives and with the strategic objectives for the sectoral allocation of budgetary resources. Budget planning and management at the sectoral level has also improved, although the performance so far has been somewhat uneven. The major challenge now facing the reform effort is to introduce effective results oriented management within the individual institutions of the public service.

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